

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name PENTWATER TOWNSHIP	County OCEANA
Audit Date 3/31/05	Opinion Date 5/26/05	Date Accountant Report Submitted to State: 9/27/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, PC			
Street Address 1000 COOLIDGE ROAD		City EAST LANSING	State MI
Accountant Signature <i>Michael A. Richardson CPA</i>		ZIP 48823	Date 9/26/05

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INDEPENDENT AUDITORS' REPORT

Pentwater Township Board
Township of Pentwater
Pentwater, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township of Pentwater, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Township of Pentwater, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Township of Pentwater, Michigan as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 to the financial statements, the Township of Pentwater, Michigan adopted the provision of Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments Omnibus*. The result is a change in the format and content of the basic financial statements.

The management's discussion and analysis and the required supplementary information on pages 5 through 7 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township of Pentwater, Michigan's basic financial statements. The accompanying introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 26, 2005 on our consideration of the Township of Pentwater, Michigan's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit.

Larson & Richardson PC

Certified Public Accountants

East Lansing, Michigan
May 26, 2005

TOWNSHIP OF PENTWATER
TOWNSHIP BOARD
LIST OF PRINCIPAL INDIVIDUALS

ELECTED OFFICIAL	POSITION
Charles Smith	Supervisor
Barbara Burke	Clerk
Janice Siska	Treasurer
Terry Cluchey	Trustee
Mike Flynn	Trustee

Township of Pentwater

Management's Discussion and Analysis

This discussion and analysis of the Township of Pentwater, Michigan's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. It should be read in conjunction with the Township's financial statements.

Financial Highlights

The Township remains in a strong financial position. Net Assets at March 31, 2005 are \$1,295,126, an increase of \$46,030 over the prior year.

Overview of Financial Statements

This annual report consists of three parts: management's discussion and analysis, the basis financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view. They tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant fund, the General Fund. The fiduciary fund statement provides financial information about activity for which the Township acts solely as an agent for the benefit of those outside of government.

Township of Pentwater as a Whole

The following table shows, in a condensed format, the net assets of the governmental activities as of March 31, 2005. Prior year information is not available because this is the first year of implementation of GASB Statement No. 34. Comparative data will be presented in future years.

	Governmental Activities
Assets	
Current assets	\$ 732,477
Noncurrent assets	<u>587,938</u>
Total assets	1,320,415
Liabilities	
Current liabilities	16,232
Long-term liabilities	<u>9,057</u>
Total liabilities	25,289
Net Assets	
Invested in capital assets, net of related debt	587,938
Restricted	1,894
Unrestricted	<u>705,294</u>
Total net assets	\$ <u>1,295,126</u>

Township of Pentwater

Management's Discussion and Analysis

The Township combined net assets increased 3.68% from a year ago, increasing \$46,030, from \$1,249,096. Unrestricted net assets are the portion of net assets that can be used to finance day-to-day operations. At March 31, 2005, \$705,294 of the Township's net assets is unrestricted.

The following table shows the changes of the net assets of the governmental activities during the year ended March 31, 2005. Prior year information is not available because this is the first year of implementation of GASB Statement No. 34. Comparative data will be presented in future years.

Revenue	
Program revenue	
Operating grants	\$ 40,223
Private contributions	12,060
Charges for services	61,205
Sales	2,449
Fees and fines	27,381
General revenue	
Property taxes	337,947
Interest	9,064
Other	2,775
Total revenue	493,104
Program Expenses	
Legislative	2,383
General government	269,962
Public safety	12,176
Public works	19,949
Health and welfare	4,600
Recreation and culture	138,004
Total program expenses	447,074
Change in Net Assets	\$ <u>46,030</u>

Governmental Activities

The Township's total governmental revenues were \$493,104. The largest revenue item is property taxes, representing 68.5% of the revenue. Charges for services represent 12.4%, operating grants comprise 8.2%, fees and fines are 5.5%, with all other revenues making up the remaining 5.4%. Total revenues increased approximately \$37,700 from the prior year. General government expenses account for 60.4% of total program expenses. Recreation and culture comprise 30.9%, with all other programs making up the remaining 8.7% of total expenses.

The General Fund

The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual, found on page 19 provides detail information about the most significant fund, not the Township as a whole. The General Fund pays for the Township's general governmental services. The most significant costs relate to general government services, accounting for 85.3% of the total expenditures of the General Fund.

Township of Pentwater

Management's Discussion and Analysis

General Fund Budgetary Highlights

Only minor amendments were made to the budget over the course of the year.

Capital Assets

As of March 31, 2005, the Township had \$ 843,356 invested in capital assets. Capital assets of the Township include the Township Hall and the improvements completed in the prior fiscal year, office, computer and cemetery maintenance equipment, and the Township Library collections available to the public.

Economic Factors and Next Year's Budgets and Rates

It is expected that the Township's property tax millages will be the same next year.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers and customers with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the office.

TOWNSHIP OF PENTWATER
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2005

	GOVERNMENTAL FUNDS	ADJUSTMENTS	STATEMENT OF NET ASSETS
ASSETS			
Cash and cash equivalents	\$ 508,596	\$	\$ 508,596
Investments	196,397		196,397
Accounts receivable	434		434
Due from county/city	21,845		21,845
Due from other funds	5,205		5,205
Capital assets		587,938	587,938
TOTAL ASSETS	<u><u>\$ 732,477</u></u>	<u><u>\$ 587,938</u></u>	<u><u>\$ 1,320,415</u></u>
LIABILITIES AND FUND BALANCE/NET ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 11,623	\$	\$ 11,623
Accrued payroll taxes	4,609		4,609
Noncurrent liabilities			
Accrued sick pay		9,057	9,057
TOTAL LIABILITIES	<u><u>16,232</u></u>	<u><u>9,057</u></u>	<u><u>25,289</u></u>
FUND BALANCE/NET ASSETS			
Invested in capital assets, net of related debt	\$	\$ 587,938	\$ 587,938
Restricted for library books	1,894		1,894
Unrestricted	714,351	(9,057)	705,294
TOTAL FUND BALANCE/NET ASSETS	<u><u>\$ 716,245</u></u>	<u><u>\$ 578,881</u></u>	<u><u>\$ 1,295,126</u></u>
TOTAL LIABILITIES, FUND BALANCE/NET ASSETS	<u><u>\$ 732,477</u></u>	<u><u>\$ 587,938</u></u>	<u><u>\$ 1,320,415</u></u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE/NET ASSETS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2005

	GOVERNMENTAL FUNDS	ADJUSTMENTS	STATEMENT OF ACTIVITIES
EXPENDITURES/EXPENSES			
Legislative	\$ 2,383	\$	\$ 2,383
General government	251,657	18,305	269,962
Public safety	12,176		12,176
Public works	19,949		19,949
Health and welfare	4,600		4,600
Recreation and culture	128,598	9,406	138,004
	<u>419,363</u>	<u>27,711</u>	<u>447,074</u>
PROGRAM REVENUES			
Operating grants	40,223		40,223
Private contributions	12,060		12,060
Charges for services	61,205		61,205
Sales	2,449		2,449
Fees and fines	27,381		27,381
	<u>143,318</u>		<u>143,318</u>
Net program expense	<u>276,045</u>	<u>27,711</u>	<u>303,756</u>
GENERAL REVENUES			
Property taxes	337,947		337,947
Interest	9,064		9,064
Other	2,775		2,775
	<u>349,786</u>		<u>349,786</u>
CHANGES IN FUND BALANCE/NET ASSETS	73,741	(27,711)	46,030
PRIOR PERIOD ADJUSTMENT	7,430	(7,430)	
FUND BALANCE/NET ASSETS, APRIL 1	<u>635,074</u>	<u>614,022</u>	<u>1,249,096</u>
FUND BALANCE/NET ASSETS, MARCH 31	<u>\$ 716,245</u>	<u>\$ 578,881</u>	<u>\$ 1,295,126</u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

MARCH 31, 2005

	GENERAL	CEMETERY
ASSETS		
Cash and cash equivalents	\$ 257,976	\$ 120,192
Investments	55,138	
Accounts receivable		
Due from county/city	11,078	2,467
Due from other funds	5,205	
TOTAL ASSETS	<u><u>\$ 329,397</u></u>	<u><u>\$ 122,659</u></u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 8,772	\$ 50
Accrued payroll taxes	2,156	163
TOTAL LIABILITIES	<u>10,928</u>	<u>213</u>
FUND BALANCE		
Restricted for library books		
Unrestricted, reserved for library expansion		
Unrestricted, unreserved	318,469	122,446
TOTAL FUND BALANCE	<u>318,469</u>	<u>122,446</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 329,397</u></u>	<u><u>\$ 122,659</u></u>

See accompanying notes to financial statements.

LIBRARY	CAPITAL	TOTAL GOVERNMENTAL FUNDS
\$ 115,260	\$ 15,168	\$ 508,596
434	141,259	196,397
8,300		434
<u>123,994</u>	<u>156,427</u>	21,845
		<u>5,205</u>
		\$ <u>732,477</u>
\$ 2,801	\$	\$ 11,623
<u>2,290</u>		<u>4,609</u>
5,091		<u>16,232</u>
1,894		1,894
117,009	156,427	156,427
<u>118,903</u>	<u>156,427</u>	<u>557,924</u>
\$ <u>123,994</u>	\$ <u>156,427</u>	<u>716,245</u>
		\$ <u>732,477</u>

TOWNSHIP OF PENTWATER
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
MARCH 31, 2005

Total fund balances-governmental funds	\$	716,245
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Land improvements	\$	80,911	
Building and improvements		363,145	
Office equipment		125,430	
Software and computers		54,239	
Furniture and fixtures		70,719	
Maintenance equipment		24,372	
Library collections		115,056	
Construction in progress		9,484	
Accumulated depreciation		<u>(255,418)</u>	587,938

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Compensated absences		<u>(9,057)</u>
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Total net assets-governmental activities	\$	<u><u>1,295,126</u></u>
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See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2005

	GENERAL	CEMETERY
REVENUES		
Taxes	\$ 165,870	\$ 46,043
State grants	37,310	
Private contributions		
Charges for services	59,858	1,347
Sales		2,449
Fees and fines	7,870	
Interest	6,031	494
Other	2,774	1
TOTAL REVENUES	<u>279,713</u>	<u>50,334</u>
EXPENDITURES		
Legislative	2,383	
General government	226,911	24,694
Public safety	12,176	
Public works	19,949	
Health and welfare	4,600	
Recreation and culture		
TOTAL EXPENDITURES	<u>266,019</u>	<u>24,694</u>
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	<u>13,694</u>	<u>25,640</u>
OTHER FINANCING SOURCES (USES)		
Transfers in		
Transfers out		
TOTAL OTHER FINANCING SOURCES (USES)	<u> </u>	<u> </u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	13,694	25,640
PRIOR PERIOD ADJUSTMENT		
FUND BALANCE, APRIL 1	<u>304,775</u>	<u>96,806</u>
FUND BALANCE, MARCH 31	<u>\$ 318,469</u>	<u>\$ 122,446</u>

See accompanying notes to financial statements.

LIBRARY	CAPITAL	TOTAL GOVERNMENTAL FUNDS
\$ 126,034 2,913 6,416	\$ 5,644	\$ 337,947 40,223 12,060 61,205 2,449 27,381 9,064 2,775
19,511 1,047	1,492	27,381
<u>155,921</u>	<u>7,136</u>	<u>493,104</u>
<u>128,598</u> <u>128,598</u>	52 <u>52</u>	2,383 251,657 12,176 19,949 4,600 <u>128,598</u> <u>419,363</u>
<u>27,323</u>	<u>7,084</u>	<u>73,741</u>
<u>(60,000)</u> <u>(60,000)</u>	60,000 <u>60,000</u>	60,000 <u>(60,000)</u>
(32,677) 7,430 <u>144,150</u>	67,084 <u>89,343</u>	73,741 7,430 <u>635,074</u>
\$ <u><u>118,903</u></u>	\$ <u><u>156,427</u></u>	\$ <u><u>716,245</u></u>

TOWNSHIP OF PENTWATER
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2005

Net changes in fund balances-total governmental funds	\$ 73,741
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures however, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Expenditures for capital assets	29,632
Less: current year depreciation	(55,588)
Loss on current year capital asset disposals	(128)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in long-term compensated absences	(1,627)
Change in net assets of governmental activities	\$ <u>46,030</u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2005

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
REVENUES				
Taxes				
Taxes - 2004 levy	\$ 147,710	\$ 147,710	\$ 163,228	\$ 15,518
Trailer taxes	2,916	2,916	486	(2,430)
Payment in lieu of taxes	1,500	1,500	2,067	567
Penalties and interest			89	89
Total Taxes	<u>152,126</u>	<u>152,126</u>	<u>165,870</u>	<u>13,744</u>
State Grants				
Shared revenues	37,320	37,320	36,738	(582)
Liquor control	580	580	572	(8)
Total State Grants	<u>37,900</u>	<u>37,900</u>	<u>37,310</u>	<u>(590)</u>
Charges for Services				
PTAF and collection fees	43,377	43,377	52,591	9,214
Licenses and permits	1,400	1,400	1,405	5
Transfer station	6,600	6,600	5,862	(738)
Total Charges for Services	<u>51,377</u>	<u>51,377</u>	<u>59,858</u>	<u>8,481</u>
Other Revenue				
Interest	8,000	8,000	6,031	(1,969)
Franchise fees	7,000	7,000	7,870	870
Miscellaneous	2,350	2,350	2,774	424
Total Other Revenue	<u>17,350</u>	<u>17,350</u>	<u>16,675</u>	<u>(675)</u>
TOTAL REVENUES	<u>258,753</u>	<u>258,753</u>	<u>279,713</u>	<u>20,960</u>
EXPENDITURES				
LEGISLATIVE				
Township Board				
Township Board trustee wages	2,678	2,678	2,283	395
Township Board trustee fringes	205	205	100	105
TOTAL LEGISLATIVE	<u>2,883</u>	<u>2,883</u>	<u>2,383</u>	<u>500</u>
GENERAL GOVERNMENT				
Supervisor				
Salaries and wages	9,179	9,179	9,179	
Fringe benefits	702	702	702	
Total Supervisor	<u>9,881</u>	<u>9,881</u>	<u>9,881</u>	

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - Continued
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2005

	<u>BUDGETED AMOUNTS</u>			VARIANCE
	ORIGINAL	FINAL	ACTUAL	FAVORABLE (UNFAVORABLE)
EXPENDITURES - Continued				
GENERAL GOVERNMENT - Concluded				
Election				
Election wages	\$ 1,030	\$ 1,935	\$ 1,935	\$
Election travel	75	75	40	35
Election education	103	200	189	11
Miscellaneous	297	297	284	13
Total Election	<u>1,505</u>	<u>2,507</u>	<u>2,448</u>	<u>59</u>
Assessor				
Salaries and wages	<u>33,949</u>	<u>33,949</u>	<u>33,949</u>	
Clerk				
Salaries and wages	35,349	35,349	34,193	1,156
Fringe benefits	2,704	2,704	2,591	113
Total Clerk	<u>38,053</u>	<u>38,053</u>	<u>36,784</u>	<u>1,269</u>
Board of Review				
Salaries and wages	1,246	1,246	1,268	(22)
Fringe benefits	95	95	97	(2)
Total Board of Review	<u>1,341</u>	<u>1,341</u>	<u>1,365</u>	<u>(24)</u>
Treasurer				
Salaries and wages	18,458	18,473	23,608	(5,135)
Fringe benefits	1,412	1,412	1,806	(394)
Total Treasurer	<u>19,870</u>	<u>19,885</u>	<u>25,414</u>	<u>(5,529)</u>
Township Hall				
Supplies	5,700	5,700	4,273	1,427
Professional services	20,000	43,245	60,876	(17,631)
Drain assessments	4,200	4,200	4,090	110
Dues and subscriptions	2,500	2,500	2,125	375
Insurance and bonds	5,000	5,102	5,329	(227)
Printing and publishing	3,200	3,363	4,896	(1,533)
Utilities and telephone	3,200	3,200	3,578	(378)
Repairs and maintenance	12,000	12,000	13,320	(1,320)
Capital outlay	47,639	22,631	14,154	8,477
Travel	1,000	1,088	1,632	(544)
Education and training	1,500	1,500	2,054	(554)
Miscellaneous	500	680	743	(63)
Total Township Hall	<u>106,439</u>	<u>105,209</u>	<u>117,070</u>	<u>(11,861)</u>
TOTAL GENERAL GOVERNMENT	<u>211,038</u>	<u>210,825</u>	<u>226,911</u>	<u>(16,086)</u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - Continued
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2005

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
EXPENDITURES - Continued				
PUBLIC SAFETY				
Police - Liquor Control				
Salaries and wages	\$ 580	\$ 580	\$ 575	\$ 5
Fringe benefits	50	50	44	6
Total Police - Liquor Control	630	630	619	11
Charter Communications				
Professional services	1,500	1,709	1,367	342
Zoning and Planning Commission				
Salaries and wages	8,491	8,491	7,987	504
Fringe benefits	650	650	611	39
Total Zoning and Planning Commission	9,141	9,141	8,598	543
Assessor Plat				
Salaries and wages	2,060	2,060	1,590	470
Fringe benefits	158	158	2	156
Total Assessor Plat	2,218	2,218	1,592	626
TOTAL PUBLIC SAFETY	13,489	13,698	12,176	1,522
PUBLIC WORKS				
Street Lighting	500	500	435	65
Highway, Streets and Bridges				
Repairs and maintenance	2,500	2,500	6,530	(4,030)
Capital outlay	5,000	5,000		5,000
Total Highway, Streets and Bridges	7,500	7,500	6,530	970
Sanitation				
Salaries and wages	4,963	4,963	4,510	453
Fringe benefits	380	380	345	35
Repairs and maintenance	1,000	1,004	1,004	
Landfill rental	10,000	10,000	7,125	2,875
Total Sanitation	16,343	16,347	12,984	3,363
TOTAL PUBLIC WORKS	24,343	24,347	19,949	4,398

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - Concluded
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2005

	<u>BUDGETED AMOUNTS</u>			VARIANCE FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>	ACTUAL	
EXPENDITURES - Concluded				
HEALTH AND WELFARE				
Recreation fund				
Repairs and maintenance	\$ 6,000	\$ 6,000	\$ 3,600	\$ 2,400
Capital outlay	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	
TOTAL HEALTH AND WELFARE	<u>7,000</u>	<u>7,000</u>	<u>4,600</u>	<u>2,400</u>
TOTAL EXPENDITURES	<u>258,753</u>	<u>258,753</u>	<u>266,019</u>	<u>(7,266)</u>
EXCESS REVENUES OVER EXPENDITURES			13,694	13,694
FUND BALANCE, APRIL 1	<u>304,775</u>	<u>304,775</u>	<u>304,775</u>	
FUND BALANCE, MARCH 31	<u>\$ 304,775</u>	<u>\$ 304,775</u>	<u>\$ 318,469</u>	<u>\$ 13,694</u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CEMETERY FUND
FOR THE YEAR ENDED MARCH 31, 2005

	<u>BUDGETED AMOUNTS</u>			VARIANCE FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
REVENUES				
Taxes	\$ 45,100	\$ 45,100	\$ 46,043	\$ 943
Charges for services	1,100	1,100	1,347	247
Sales	4,000	4,000	2,449	(1,551)
Interest	600	600	494	(106)
Other	5	5	1	(4)
TOTAL REVENUE	<u>50,805</u>	<u>50,805</u>	<u>50,334</u>	<u>(471)</u>
EXPENDITURES				
Committee member	1,250	1,250	1,650	(400)
Salaries and wages	12,000	12,000	9,238	2,762
Fringes	1,000	1,000	672	328
Supplies	2,000	2,000	829	1,171
Professional services	500	500	325	175
Dues and subscriptions	25	25	60	(35)
Insurance and bonds	1,200	1,200	1,205	(5)
Printing and publishing	200	200	40	160
Utilities	1,200	1,200	1,973	(773)
Repairs and maintenance	15,000	15,000	1,456	13,544
Capital outlay	15,630	15,630	7,212	8,418
Transportation and travel	200	200	8	192
Education and training	100	100		100
Miscellaneous	500	500	26	474
TOTAL EXPENDITURES	<u>50,805</u>	<u>50,805</u>	<u>24,694</u>	<u>26,111</u>
EXCESS OF REVENUES OVER EXPENDITURES			25,640	25,640
FUND BALANCE, APRIL 1	<u>96,806</u>	<u>96,806</u>	<u>96,806</u>	
FUND BALANCE, MARCH 31	<u>\$ 96,806</u>	<u>\$ 96,806</u>	<u>\$ 122,446</u>	<u>\$ 25,640</u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LIBRARY FUND
FOR THE YEAR ENDED MARCH 31, 2005

	<u>BUDGETED AMOUNTS</u>			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
REVENUES				
Taxes	\$ 117,892	\$ 124,492	\$ 126,034	\$ 1,542
State grants	2,595	2,595	2,913	318
Private contributions	550	6,550	6,416	(134)
Fees and fines	18,610	18,610	19,511	901
Interest and other	400	400	1,047	647
TOTAL REVENUE	<u>140,047</u>	<u>152,647</u>	<u>155,921</u>	<u>3,274</u>
EXPENDITURES				
Salaries and fringe benefits	80,474	80,474	73,985	6,489
Library materials	18,700	22,150	22,180	(30)
Office supplies and postage	3,475	4,500	4,135	365
Contract and professional services	7,575	7,575	5,336	2,239
Communications	3,100	3,100	2,824	276
Utilities and maintenance	8,250	10,000	9,855	145
Insurance	3,000	3,250	3,248	2
Capital outlay	5,500	5,750	5,423	327
Miscellaneous	1,650	1,650	1,612	38
TOTAL EXPENDITURES	<u>131,724</u>	<u>138,449</u>	<u>128,598</u>	<u>9,851</u>
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	8,323	14,198	27,323	13,125
OTHER FINANCING USES				
Transfers out	<u>(60,000)</u>	<u>(60,000)</u>	<u>(60,000)</u>	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	(51,677)	(45,802)	(32,677)	13,125
PRIOR PERIOD ADJUSTMENT			7,430	7,430
FUND BALANCE, APRIL 1	<u>144,150</u>	<u>144,150</u>	<u>144,150</u>	
FUND BALANCE, MARCH 31	<u>\$ 92,473</u>	<u>\$ 98,348</u>	<u>\$ 118,903</u>	<u>\$ 20,555</u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES - FIDUCIARY FUNDS
FOR THE YEAR ENDED MARCH 31, 2005

	BALANCE, APRIL 1	ADDITIONS	DEDUCTIONS	BALANCE, MARCH 31
ASSETS				
Cash	\$ <u>2,385</u>	\$ <u>4,789,463</u>	\$ <u>4,786,537</u>	\$ <u>5,311</u>
LIABILITIES				
Due to other funds	\$ 733	\$ 483,967	\$ 479,495	\$ 5,205
Due to county and ISD		1,812,059	1,812,059	
Due to schools		1,560,023	1,560,023	
Due to village		135,280	135,280	
Due to state		797,831	797,831	
Accounts payable	<u>1,652</u>	<u>303</u>	<u>1,849</u>	<u>106</u>
TOTAL LIABILITIES	\$ <u>2,385</u>	\$ <u>4,789,463</u>	\$ <u>4,786,537</u>	\$ <u>5,311</u>

See accompanying notes to financial statements.

TOWNSHIP OF PENTWATER
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Township operates under an elected Township Board and provides services to its more than 1,500 residents in many areas including community enrichment and development.

The accounting policies of Pentwater Township conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

All funds and account groups under direct control of the Township are included in this report. These funds and account groups are those which meet the criteria established by Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity, and Statement on Michigan Governmental Accounting and Auditing No.5.

The criteria established by GASB for determining which of the Township's various organizations and activities are to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. On this basis, the financial statements of certain other governmental organizations are not included in the financial statements of the Township.

Blended Component Units

The Library Fund accounts for the financing and operating of the Pentwater Township Library. The Library Fund is reported as a special revenue fund.

The Cemetery Fund accounts for the financing and operating of the Pentwater Township Cemetery. All financial decisions concerning the Cemetery Fund are approved by the Township. The Cemetery Fund is reported as a special revenue fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statements of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government of the Township of Pentwater and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for services.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**B. Government-Wide and Fund Financial Statements - Concluded**

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the fiduciary fund financial statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise fees, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Township of Pentwater.

The Township of Pentwater reports the following major governmental funds:

The General Fund is used to account for all financial transactions, except those required to be accounted for in another fund. The fund includes the general operating expenditures of the Township of Pentwater. Revenues are derived primarily from property taxes, state distributions and interest on investments.

The Library Fund accounts for the financing and operating of the Pentwater Township Library.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting, and Financial Statements - Concluded

The Cemetery Fund accounts for the financing and operating of the Pentwater Township Cemetery. All financial decisions concerning the Cemetery Fund are approved by the Township.

The Capital Fund is used to account for the financial resources to be provided for the possible future expansion of the library facilities.

In addition to the General Fund, the Township of Pentwater reports the following fund types:

Fiduciary Funds are used to account for assets held by a governmental unit as the trustee or agent for others. The Tax Account is the only fiduciary fund of the Township.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township of Pentwater has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the tax fund.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The Township has no proprietary funds.

When both restricted and unrestricted resources are available for use, it is the Township of Pentwater's policy to use restricted resources first. Unrestricted resources are used as they are needed.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

D. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. streets, bridges, and sidewalks), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township of Pentwater as assets with an initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year.

All capital assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated capital assets are recorded at estimated fair market value on the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives is not capitalized.

Depreciation of all exhaustible capital assets used is charged as an expense against their operations in government-wide statements and all proprietary financial statements. Accumulated depreciation is reported on government-wide and proprietary statement of net assets.

The straight-line depreciation method is applied over the estimated useful life of all depreciable capital assets. The estimated useful lives for capital assets are displayed in the table below:

ASSET CLASS	DEPRECIABLE LIFE
Land	n/a
Land improvements	20 years
Buildings and improvements	20 years
Office equipment	8 years
Software and computers	5 years
Furniture and fixtures	15 years
Maintenance equipment	8 years
Library collections	10 years

E. Cash and Investments

The Township's cash is considered to be cash on hand, demand deposits, and non-negotiable certificates of deposit with an original maturity of 3 months or less.

All investments are stated at cost or amortized cost.

F. Inventory of Supplies

Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase. There were no material inventories at year-end.

G. Budgets and Budgetary Accounting

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 31, the Township board reviews a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Concluded**

G. Budgets and Budgetary Accounting - Concluded

2. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
3. Prior to April 1 the budget is legally adopted.
4. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with U.S. generally accepted accounting principles.
5. Any revision to the budget must be approved by the Township Board.
6. Budgeted amounts are as originally adopted or amended by the Township Board during the year. Individual amendments were not material in relation to the original appropriations which were amended.
7. All annual appropriations lapse at year end.

H. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: **PROPERTY TAXES**

Pertinent tax dates are as follows:

Lien date	12/01/04
Levy date	12/01/04
Due date without penalty	02/14/05
Collection date	07/01/04 – 02/28/05

NOTE 3: **CASH AND INVESTMENTS**

The captions on the combined balance sheet relating to cash and investments are as follows:

Cash and cash equivalents	\$ 508,596
Investments	<u>196,397</u>
	<u>\$ 704,993</u>

A summary by type are:

Deposits	
Cash in demand accounts	\$ 262,230
Cash in savings accounts/ money market	246,169
Petty cash	197
Investments	
Certificates of deposit	<u>196,397</u>
	<u>\$ 704,993</u>

NOTE 3: **CASH AND INVESTMENTS – Continued**

Deposits

At March 31, 2005, the banks were carrying a cash balance of \$287,512 - not including any pooled investment funds.

Bank deposits and investments were insured up to \$210,755, leaving a balance of \$76,757 uninsured.

Investments

Act 196, P. A. 1997, authorizes the Township to deposit and invest in the following:

- (a) Bonds, securities and other direct obligations of the United States or its agencies.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the national credit union administration that are eligible to be depository of surplus money belonging to the State under section 5 or 6 of Act 105, P.A. 1855, as amended (MCL 21.145 and 21.146).
- (c) Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptance of United States banks.
- (f) Obligation of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Certain mutual funds as defined in the Act.

Investments of the Township are in accordance with statutory authority.

There are three levels of risk by which investments are classified. Category 1 includes investments that are insured or registered or for which the securities are held by the Township or its agent in the Township's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Township's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Township's name. At March 31, 2005, the Township's investments of \$196,397 were all classified in category 1.

The Township has adopted a formal investment policy, as required by Act 20, P.A. 1943 as amended, that complies with State law.

NOTE 4: **CAPITAL ASSETS**

A summary of changes in governmental capital assets including internal service fund assets is as follows:

	APRIL 1, 2004	ADDITIONS	DELETIONS	MARCH 31, 2005
Capital assets being depreciated				
Land improvements	\$ 80,911	\$	\$	\$ 80,911
Building and improvements	358,924	4,221		363,145
Office equipment	125,430			125,430
Software and computers	50,045	9,503	5,309	54,239
Furniture and fixtures	70,494	275	50	70,719
Maintenance equipment	24,372			24,372
Library collections	<u>108,703</u>	<u>15,633</u>	<u>9,280</u>	<u>115,056</u>
Total Capital assets being depreciated	<u>818,879</u>	<u>29,632</u>	<u>14,639</u>	<u>833,872</u>
Less: Accumulated depreciation				
Land improvements	7,430	4,045		11,475
Building and improvements	59,548	9,097		68,645
Office equipment	19,078	15,679		34,757
Software and computers	30,524	8,273	5,181	33,616
Furniture and fixtures	36,090	4,259	50	40,299
Maintenance equipment	9,681	3,047		12,728
Library collections	<u>51,990</u>	<u>11,188</u>	<u>9,280</u>	<u>53,898</u>
Total Accumulated Depreciation	<u>214,341</u>	<u>55,588</u>	<u>14,511</u>	<u>255,418</u>
Net Capital assets being depreciated	604,538	(25,956)	128	578,454
Capital assets not being depreciated				
Construction in progress	<u>9,484</u>			<u>9,484</u>
NET CAPITAL ASSETS	\$ <u>614,022</u>	\$ (<u>25,956</u>)	\$ <u>128</u>	\$ <u>587,938</u>

Depreciation expense for the governmental activities was charged to the following functions and activities of the primary government:

GOVERNMENTAL ACTIVITY	AMOUNT
General government	\$ 26,846
Recreation and culture	<u>28,742</u>
	\$ <u>55,588</u>

NOTE 5: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN INDIVIDUAL FUNDS

P.A. 621 of 1978 provides that local units of government shall not incur expenditures in excess of the amounts appropriated in the formal budget document adopted by the Township Board. P.A. 493 of 2003 removed debt service funds as funds requiring a budget. During the year ended March 31, 2005, Pentwater Township incurred expenditures in excess of appropriations as follows:

	BUDGET	ACTUAL	UNFAVORABLE VARIANCE
GENERAL FUND			
General government			
Board of review	\$ 1,341	\$ 1,365	\$(24)
Treasurer	19,885	25,414	(5,529)
Township hall	105,209	117,070	(11,861)
CEMETERY FUND			
General government			
Committee member	1,250	1,650	(400)
Dues and subscriptions	25	60	(35)
Insurance and bonds	1,200	1,205	(5)
Utilities	1,200	1,973	(773)
LIBRARY FUND			
Recreation and culture			
Library materials	22,150	22,180	(30)

NOTE 6: RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the Township to purchase commercial insurance for most risks of loss to which it is exposed.

NOTE 7: INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

FUND	INTERFUND RECEIVABLES	FUND	INTERFUND PAYABLES
General	\$ <u>5,205</u>	Tax Account	\$ <u>5,205</u>

NOTE 8: FUND BALANCE DESIGNATIONS

Designations of unrestricted fund balances in governmental funds indicate the Township's tentative plans for use of financial resources in a future period.

NOTE 9: SUBSEQUENT EVENT

The Township Board has authorized the purchase real estate in the amount of \$50,000, with all legal fees to be paid by the Pentwater Township Cemetery. The Board intends to pay for the purchase with cash.

NOTE 10: PRIOR PERIOD ADJUSTMENT

With the adoption of reporting under GASB 34, the Library Fund is no longer including an accrual for compensated absences (accrued sick pay) in the Governmental Funds Balance Sheet, as the liability is not due and payable in the current period. This liability is, however, included in the Statement of Net Assets.

NOTE 11: ENDOWMENT FUND

Under a Designated Fund Agreement between the George W. Hansen and Edna Mae Hansen Living Trust (donors) and the Community Foundation for Oceana County (Foundation), dated February 2, 2005, the George Wilbur and Edna Hansen Endowment Fund (Endowment Fund) was created. The Donors contributed \$100,000 to the Endowment Fund. The Designated Fund Agreement states that the Endowment Fund is to be held by the Foundation as its property and not as a trustee. The Designated Fund Agreement also stipulates that each year the income from the Endowment Fund, as determined in accordance with the Foundation's policies, shall be distributed 50% to the Pentwater Township Library and 50% to another charitable organization. The Designated Fund Agreement also stipulates that the Pentwater Township Library is to use any future income of the Endowment Fund and distributed by the Foundation, 50% for the purchase of books and 50% to purchase other educational materials in memory of George Wilbur and Edna Hansen. As the Endowment Fund is held by the Foundation as its property, no amount is included in the financial statements of the Township of Pentwater. As of March 31, 2005, no income has been received by the Library Fund from the Foundation's Endowment Fund.



Layton & Richardson, P.C.

Certified Public Accountants

Telephone (517) 332-1900

FAX (517) 332-2082

1000 Coolidge Road • East Lansing, MI 48823-2415 • Info@LNRCPA.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE BASED
ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Pentwater Township Board
Township of Pentwater
Pentwater, Michigan

We have audited the general purpose financial statements of THE TOWNSHIP OF PENTWATER, MICHIGAN as of and for the year ended March 31, 2005, and have issued our report thereon dated May 26, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Township of Pentwater, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Pentwater, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Pentwater Township in a separate letter dated May 26, 2005.

This report is intended for the information of management of Pentwater Township. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Layton & Richardson PC
Certified Public Accountants

East Lansing, Michigan
May 26, 2005



LETTER OF COMMENTS AND RECOMMENDATIONS

Pentwater Township Board
Township of Pentwater
Pentwater, Michigan

We have audited the financial statements of PENTWATER TOWNSHIP, MICHIGAN, for the year ended March 31, 2005, and have issued our report thereon dated May 26, 2005. As part of the audit process, we tested and evaluated the system of internal accounting controls and the procedures used to record the financial transactions of the Township of Pentwater, Michigan. These tests and evaluations are important to the audit process because they serve as the basis for our opinion on the reliability and accuracy of the financial statements.

Although we did not observe any material errors or weaknesses in accounting or financial management, the following recommendations are intended to improve the efficiency and effectiveness of control procedures:

PRIOR YEAR RECOMMENDATIONS

Cash Disbursements

Before invoices are paid they should be initialed by either the Clerk, Deputy Clerk or the Treasurer. This procedure is essential for a proper review of the Townships invoices. **This has been implemented.**

Budgets

The budget should be amended at least four times a year with the final amendments made during the March meeting preceding the year end. **This has not been implemented.**

CURRENT YEAR RECOMMENDATIONS

Documentation of Budget Approval

We noted that copies of the budgets approved by the board were not included as attachments to the board minutes. We recommend that all budget approvals and amendments be fully detailed in the board minutes.

CURRENT YEAR RECOMMENDATIONS – Continued

Segregation of Duties

The Treasurer and Clerk are authorized signors on bank accounts. Additionally, the Deputy Treasurer and Deputy Clerk are authorized signors in the absence of the Treasurer and Clerk, respectively. The Treasurer, Clerk and their Deputies all process cash receipts. The Treasurer and Clerk reconcile the monthly bank statements with their accounting records.

Strong internal controls call for segregation of duties, with the intent of limiting the responsibilities any one individual may have over the entire recording process of transactions. Segregation of duties is difficult to accomplish when the number of staff members is small. In light of this, we recommend that the Township Supervisor receive the bank statements directly from the bank, and review them four times per year. The Supervisor should request the bank statements for review at random. The Supervisor should examine the bank statements and all documents returned with the statements for any unusual items, and ask to see supporting documentation for anything questionable. The Supervisor should initial and date the bank statements upon being satisfied that all items are appropriate. This periodic review will provide improved internal controls over the cash disbursement and receipts of the Township.

Cash Disbursements – General Fund

Supporting Documentation

We noted instances of payment for routine maintenance services with no supporting documentation in the form of a written service agreement or invoices. We recommend that verbal agreements be put into writing and be signed by the Township and the vendor. Further, we recommend that supporting documentation be required for all vendor disbursements. This documentation can be in the form of a vendor invoice, memo or check request indicating purpose of disbursement, payee and date(s) of services.

We are grateful to the officials and employees of Pentwater Township for the assistance and cooperation which we received during the audit, and we thank them.

Lagton + Richardson PC
Certified Public Accountants

East Lansing, Michigan
May 26, 2005